Robo-Advisors in Investment Management

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Abstract*: One of the important contributions of the fourth industrial revolution is the introduction of robo advisors as alternates to conventional mutual funds. Robo advisors are mechanized platforms that use automated algorithms to provide financial advice to investors. This study compares the risk adjusted performance of these automated advisors to the conventional funds that were based in the US between the years 2016 and 2019. Our results show that on average, robo advisors demonstrate superior performance as compared to equity, fixed income, money market and hybrid funds. They also out performed three prominent equity indices, and the results remained robust for different specifications of the risk to reward models. The findings demonstrated that robo advisors not only provide easy access and cost effective advice, but also dominate in the risk adjusted performance.*

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